PROFIT *hunters*

ARTEMIS UK Select *Fund*

Manager's Report
and Financial Statements
for the year ended 31 December 2018

ARTEMIS
The PROFIT Hunter

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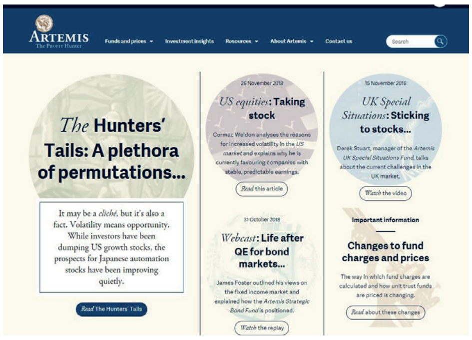

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artemisfunds.com

General information

Company profile

Artemis is a leading UK-based fund manager, offering a range of funds which invest in the UK, Europe, the US and around the world.

As a dedicated, active investment house, we specialise in investment management for both retail and institutional investors across Europe.

Independent and owner-managed, Artemis opened for business in 1997. Its aim was, and still is, exemplary investment performance and client service. All Artemis' staff share these two precepts – and the same flair and enthusiasm for fund management.

The firm now manages some £27.5 billion* across a range of funds, two investment trusts, a venture capital trust and both pooled and segregated institutional portfolios.

Our managers invest in their own and their colleagues' funds. This has been a basic tenet of the Artemis approach since the firm started. It means that interests of our fund managers are directly aligned with those of our investors.

* Source: Artemis as at 31 January 2019.

Fund status

Artemis UK Select Fund was constituted by a Trust Deed dated 17 March 1998 and is an authorised unit trust scheme under the Financial Services and Markets Act 2000. The fund belongs to the category of UCITS schemes as defined in the Collective Investment Schemes Sourcebook ('COLL') of the Financial Conduct Authority ('FCA').

Investment objective

The objective of the fund is to achieve long-term capital growth. The emphasis of the fund will be investment in companies listed, quoted and/or traded in the UK and in companies which are headquartered or have a significant part of their activities in the UK which are quoted on a regulated market outside the UK.

Investment policy

The manager actively manages the portfolio in order to achieve the objective and will not be restricted in respect of choice of investments either by company size or industry. The securities of companies listed, quoted and/or traded in the UK but domiciled elsewhere and the securities of companies traded on ISDX may be included in the portfolio.

The fund may also invest in other transferable securities, units of collective investment schemes, money market instruments, warrants, cash and near cash, derivatives and forward transactions and other investments to the extent that each is permitted by the regulations.

Buying and selling

Units may be bought and sold by contacting the manager by telephone, at the address on page 3 or via the website artemisfunds.com. Valuation of the fund takes place each business day at 12 noon on a forward pricing basis. Investors are reminded that past performance is not a guarantee of performance in the future and that the price of units and the revenue from them can fall as well as rise.

Risk and reward profile

Typically lower rewards						Typically higher rewards
Lower risk						Higher risk
1	2	3	4	**5**	6	7

- This indicator is based on historical data and may not be a reliable indication of the future risk profile of the fund.
- The risk category shown is not guaranteed and may change over time.
- A risk indicator of "1" does not mean that the investment is "risk free".
- The indicator is not a measure of the possibility of losing your investment.

The risk indicator may not fully take into account the following risks:

- The price of units, and the income from them, can fall and rise because of stock market and currency movements.
- Stock market prices, currencies and interest rates can move irrationally and can be affected unpredictably by diverse factors, including political and economic events.
- A portion of the fund's assets may be invested in a currency other than the fund's accounting currency (sterling). The value of these assets, and the income from them, may decrease if the currency falls in relation to sterling, in which the fund is valued and priced.
- The fund may have a concentrated portfolio of investments, which can give rise to more risk than where investments are spread over a large number of companies. This may increase the potential gains, however, the concentration of exposure and lack of diversification may also substantially increase the risk of loss by this fund.
- The fund may have concentrated exposures to those industries or sectors whose prospects the Investment Manager deems attractive. This may increase the potential gains but also increases the risk of suffering a loss.
- The fund may hold derivatives with the aim of profiting from falling prices. If the related assets rise in value the fund will lose money.
- Investing in small and medium-size companies can involve more risk than investing in larger, more established companies. Shares in smaller companies are often not as easy to sell as shares in larger companies are. This can cause difficulty in buying,valuing and selling those shares. Also, reliable information for deciding their value or the risks may not be available.
- Investments in fixed interest securities are subject to market and credit risk and will be impacted by movements in interest rates. Interest rate movements are determined by a number of economic factors, in particular market expectations of future inflation.
- There was no change to the indicator in the period.

Prospectus

Copies of the most recent Prospectus are available free of charge from the manager at the address on page 3.

General information (continued)

Change of Trustee and Depositary

With effect from 15 January 2018 J.P. Morgan Europe Limited took over the responsibility as Trustee & Depositary of the fund.

Removal of initial charge

The fund's prospectus includes the ability for Artemis to apply an initial charge on investments into the fund. The prospectus also sets out the maximum amount of this charge for different unit classes in the fund, although in almost all cases the initial charge has been waived in its entirety for a number of years. The prospectus was updated on 6 June 2018 to make it clear that no initial charge will be levied in respect of the existing unit classes. For further information please contact our client services team on 0800 092 2051.

Changes to Artemis' funds from February 2019

With effect from 1 February 2019, Artemis made changes to how its funds operate:

- the way in which fund charges are calculated, moving from variable expenses to an administration fee with a discount applied based on fund size.
- how our unit trust funds are priced, changing from 'bid price' and 'offer price' to a 'single price'.

The prospectus was updated on 4 February 2019 as a result of the changes.

Remuneration

Following an amendment to the UCITS Directive in the UK on 18 March 2016, all UCITS schemes are required to comply with the UCITS Remuneration Code. This includes a requirement to disclose, in the annual report of each scheme, details of the total amount of remuneration paid by the manager to its partners and staff for its financial year. As the Artemis UK Select Fund (the 'fund') is a UCITS scheme, Artemis Fund Managers Limited ('AFML') as manager is required to make these disclosures. Artemis operates its remuneration policies and practices at a group level, which includes both Artemis Investment Management LLP and its subsidiary AFML. Details of the group remuneration policies are available on Artemis' website **artemisfunds.com**. Remuneration levels are set to attract, retain and motivate talented partners and staff and align long-term interests of partners and staff with those of our clients.

The remuneration policies which apply to all partners and staff across the group are overseen by the Remuneration Committee. The members of the Remuneration Committee are all non-executive officers. The Remuneration Committee is responsible for setting and overseeing the implementation of Artemis' remuneration policy, including approving the remuneration of partners and other senior staff. The Remuneration Committee will regularly review the remuneration policy to ensure it remains appropriate. The Remuneration Committee considers inputs from Artemis' Compliance and Risk functions when reviewing remuneration issues, including any risk adjustments or controls considered necessary. The Artemis remuneration period runs from 1 January to 31 December, therefore, the first full performance period subject to the UCITS Remuneration Code started on 1 January 2017 and ended on 31 December 2017. As a consequence, for certain partners and staff who are classified as 'Identified Staff' as their professional activities have a material impact on the risk profile of the firm, the payment of some of the variable remuneration (which may include profit share for partners) is deferred. Further, Artemis has the ability to reduce all or part of deferred variable remuneration that has been previously allocated to Identified Staff, before the end of the vesting period.

No staff are employed by AFML directly but are employed and paid by other entities of Artemis. Artemis has apportioned the total amount of remuneration paid to all 171 Artemis partners and staff in respect of AFML's duties performed for the UCITS schemes based on the number of funds. It has estimated that the total amount of remuneration paid in respect of duties for the fund for the year ended 31 December 2017 is £1,254,507, of which £327,834 is fixed remuneration and £926,673 is variable remuneration. No amount of remuneration, including any performance fees, was paid directly by the fund.

The aggregate amount of remuneration paid to UCITS Remuneration Code and Identified Staff that is attributable to duties for the fund for the year ended 31 December 2017 is £307,248. AFML Remuneration Code and Identified Staff are those senior individuals whose managerial responsibilities or professional activities could influence, and have a material impact on, the overall risk profile of each regulated entity and the funds it manages. For the purposes of UCITS Remuneration Code the AFML Remuneration Code staff are the members of Artemis' Management and Executive Committees, certain fund managers, the General Counsel, the Head of Compliance and the Head of Risk. This includes certain individuals who are partners in Artemis Investment Management LLP.

Tax information reporting

UK tax legislation requires fund managers to provide information to HMRC on certain investors who purchase units in unit trusts. Accordingly, the fund may have to provide information annually to HMRC on the tax residencies of those unitholders that are tax resident outwith the UK, in those countries that have signed up to the OECD's ('Organisation for Economic Co-operation and Development') Common Reporting Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard'), or the United States (under the Foreign Account Tax Compliance Act, 'FATCA').

All new unitholders that invest in the fund must complete a certification form as part of the application form. Existing unitholders may also be contacted by the Registrar should any extra information be needed to correctly determine their tax residence. Failure to provide this information may result in the account being reported to HMRC.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders: gov.uk/government/publications/exchange-of-information-account-holders.

Manager

Artemis Fund Managers Limited *
Cassini House
57 St James's Street
London SW1A 1LD

Dealing information:
Artemis Fund Managers Limited
PO Box 9688
Chelmsford CM99 2AE
Telephone: 0800 092 2051
Website: artemisfunds.com

Investment adviser

Artemis Investment Management LLP *
Cassini House
57 St James's Street
London SW1A 1LD

Trustee and Depositary

(to 15 January 2018)
National Westminster Bank Plc †
Trustee & Depositary Services
Younger Building
1st Floor, 3 Redheughs Avenue
Edinburgh EH12 9RH

(from 15 January 2018)
J.P. Morgan Europe Limited †
25 Bank Street
Canary Wharf
London E14 5JP

Registrar

DST Financial Services International Limited *
DST House
St Nicholas Lane
Basildon
Essex SS15 5FS

Auditor

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

* Authorised and regulated by the FCA, 12 Endeavour Square, London E20 1JN.

† Authorised by the Prudential Regulation Authority ('PRA'), 20 Moorgate, London EC2R 6DA and regulated by the PRA and the FCA.

Statement of the trustee's responsibilities for the period from 1 January 2018 to 15 January 2018

The trustee must ensure that the Artemis UK Select Fund ('the scheme') is managed in accordance with COLL, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Trust Deed and Prospectus (together 'the scheme documents') as detailed below.

The trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the scheme and its investors.

The trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the scheme in accordance with the Regulations.

The trustee must ensure that:

- the scheme's cash flows are properly monitored and that cash of the scheme is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the scheme are calculated in accordance with the Regulations;
- any consideration relating to transactions in the scheme's assets is remitted to the scheme within the usual time limits;
- the scheme's income is applied in accordance with the Regulations; and
- the instructions of the manager are carried out (unless they conflict with the Regulations).

The trustee also has a duty to take reasonable care to ensure that the scheme is managed in accordance with the Regulations and the scheme documents in relation to the investment and borrowing powers applicable to the scheme.

Report of the trustee to the unitholders of Artemis UK Select Fund for the period from 1 January 2018 to 15 January 2018

Having carried out such procedures as we consider necessary to discharge our responsibilities as trustee of the scheme, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the scheme, acting through the manager:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the scheme's units and the application of the scheme's income in accordance with the Regulations and the scheme documents; and

(ii) has observed the investment and borrowing powers and restrictions applicable to the scheme.

National Westminster Bank Plc
Trustee & Depositary Services
Edinburgh
15 January 2018

General information (continued)

Statement of the trustee's responsibilities in respect of the scheme and report of the trustee to the unitholders of Artemis UK Select Fund ('the Trust') for the period from 15 January 2018 to 31 December 2018

The trustee of Artemis UK Select Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Trust Deed and Prospectus (together 'the scheme documents') as detailed below.

The trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors. The trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The trustee must ensure that:

- the Trust's cash flows are properly monitored and that cash of the Trust is booked in the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits;
- the Trust's income is applied in accordance with the Regulations; and the instructions of the Authorised Fund Manager ('the AFM'), which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

The trustee also has a duty to take reasonable care to ensure that the Trust is managed in accordance with the Regulations and Scheme documents of the Trust in relation to the investment and borrowing powers applicable to the Trust.

Having carried out such procedures as we consider necessary to discharge our responsibilities as trustee of the Trust, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Trust, acting through the AFM:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Trust's units and the application of the Trust's income in accordance with the Regulations and the scheme documents of the Trust; and

(ii) has observed the investment and borrowing powers and restrictions applicable to the Trust in accordance with the Regulations and the Scheme documents of the Trust.

J.P. Morgan Europe Limited
London
25 February 2019

Statement of the manager's responsibilities

COLL requires the manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the fund and of its revenue and expenditure for the year.

In preparing the financial statements the manager is required to:

(i) select suitable accounting policies and then apply them consistently;

(ii) comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in May 2014 ('SORP');

(iii) follow applicable accounting standards;

(iv) keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;

(v) make judgements and estimates that are reasonable and prudent; and

(vi) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in operation.

The manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and COLL.

The manager is also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the manager

We hereby approve the Manager's Report and Financial Statements of the Artemis UK Select Fund for the year ended 31 December 2018 on behalf of Artemis Fund Managers Limited in accordance with the requirements of COLL as issued and amended by the FCA.

M J Murray J L Berens
Director Director
Artemis Fund Managers Limited
London
25 February 2019

Independent auditor's report to the unitholders of the Artemis UK Select Fund

Opinion

We have audited the financial statements of the Artemis UK Select Fund ('the Fund') for the year ended 31 December 2018 which comprise the statement of total return, statement of change in net assets attributable to unitholders, balance sheet, distribution tables and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 31 December 2018 and of the net revenue and the net losses on the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The manager is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority and the Trust Deed;
- the information given in the manager's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter in relation to which the Collective Investment Schemes Sourcebook of the Financial Conduct Authority rules requires us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the manager

As explained more fully in the manager's responsibilities statement set out on page 4, the manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

General information (continued)

In preparing the financial statements, the manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the unitholders of the Fund, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the unitholders of the Fund those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the unitholders of the Fund as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
Edinburgh
25 February 2019

Notes:
1. The maintenance and integrity of the Artemis Unit Trusts web site is the responsibility of the manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

■ The fund fell by 19.7%* versus a 9.5%* decline in the benchmark.

■ UK domestic stocks remain sensitive to developments in the Brexit negotiations.

■ Any lifting of top-down uncertainties could provoke a powerful rally.

Performance – Far from a vintage year …

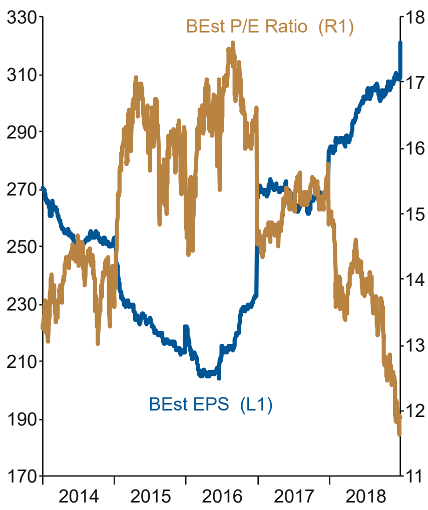
2018 was a disappointing year for investors in the UK stockmarket. As top-down concerns came to dominate sentiment, early optimism about synchronised growth across the global economy progressively faded. Market indices then retreated sharply through the second half of the year.

As in previous years, monetary policy and politics in the US were the focus for investors: the direction of interest rates in the US, the unwinding of quantitative easing and the outlook for the trade talks between the US and China came to be seen as the key determinants of the trajectory the global economy would take in 2019. Ten years on from the financial crisis, the current economic cycle looks extended compared to previous ones, prompting many to search for what might trigger the next downturn. Trump's trade battles and / or a policy error by the US Federal Reserve are viewed as the most likely culprits.

As the year progressed, we saw weakening in some major US economic indicators – albeit still pointing firmly toward expansion. In Europe, growth slowed as Italy's populist policies worried financial markets, while tighter emissions testing and a fall in exports to China hit the important automotive sector. In response, expectations of a further tightening in monetary policy by the European Central Bank receded.

Closer to home, Brexit dominated the headlines and the market began to price in a 'harder' Brexit. With UK companies delivering strong growth in earnings, stocks that were already cheap became even cheaper (as shown by the red line in the chart below). The net result of good progression in profits and falling markets has been a significant de-rating of the equity market from a price-to-earnings multiple of 15x forward earnings at the start of 2018 to just under 12x earnings today (the blue line in the chart below). Furthermore, we would note that while other global markets have flirted with euphoria in recent years, such feelings have been absent from the UK, where the market has progressively de-rated since the referendum vote.

FTSE All-Share Index



Source: Bloomberg.

2018 was far from a vintage year for the fund: it fell by 19.7% versus a 9.5% fall in the FTSE All-Share Index. Nine percentage points of this shortfall came in the last quarter of the year, when investors' confidence collapsed and global markets fell. In retrospect, although our analysis of the earnings prospects for our holdings was largely right, what hurt was our judgement of what types of stocks the market would want to own – and the subsequent de-rating that our portfolio suffered. Having started the year trading on a multiple of 11.5x earnings, it ended the year on just 8x forward earnings.

Review – Our already cheap stocks become even cheaper…

Looking back, 2018's underperformance was as much about what the fund didn't own as what it did. Worried that a multi-decade bond bull market was coming to an end, we expected consumer staples to struggle, and value-oriented life insurers, banks and sound industrial stocks to benefit. In the event, however, it proved to be the pharmaceutical sector's year – it was up 11.8% in absolute terms. So our underweights in the trio of AstraZeneca, GlaxoSmithKline and Shire proved painful. On the flip side, our overweight in financials, which were hit by uncertainty over Brexit, hurt too. Together, these two sectors accounted for approximately half of the fund's underperformance.

At a stock level, there was one major self-inflicted wound: Superdry. Following its positive performance in 2017 we were a little cautious at the start of the year. In retrospect, we sold too little. A business skewed to selling coats is going to suffer when the weather is out of sync. 2018 wasn't cold when it was meant to be – and then was so cold no-one could shop, and so on… A mistake with currency hedging and a falling out between the board and the company's founders further weighed on the investment case. Earnings fell by around 40% over the course of the year and, coupled with a sharp de-rating, the share price fell close to twice that. This left the shares looking extremely cheap: they appear to be priced in anticipation of a long-term decline in earnings. In these current times of disruption, being priced for potential extinction is not unusual in the retail sector. Unlike many other retailers, however, Superdry has a good online presence, and two-thirds of its sales are international. It also has a large and profitable (and capital-light) wholesale channel. So while, as a retailer, it is exposed to the vicissitudes of the UK high street, we believe it is differentiated.

* Source: Lipper Limited, class I accumulation units, bid to bid basis, in sterling with dividends reinvested. Benchmark is the FTSE All-Share Index.

Investment review (continued)

Furthermore, a small portfolio of stores in the UK and a net cash balance sheet leave a business that is not burdened with the lease liabilities of most other retailers. Trading on just 6x operating profits, with a large refresh of the product range due next year we believe that any signs of an improvement in the brand's sales will lead to a partial recovery of the underperformance.

Our large holding in DS Smith (paper and packaging) made a strategically sensible deal in Europe and saw robust trading in its US business. But despite positive revisions to earnings it was heavily de-rated as concerns built around the outlook for the paper cycle which affected all names in the sector. Given DS Smith's end markets are primarily focused on fast-moving consumer goods and e-commerce, we are relaxed about the outlook for demand. Its 'short' paper position should mean it is more insulated from declines in paper prices than its peers. Interim numbers at the start of December confirmed that the business is still trading well and, with the shares now on less than 8x forward earnings and yielding over 5.5%, we believe risks to the paper price have been more than discounted. We added to our holding.

Another large holding that suffered a significant de-rating was Prudential. Lower market levels and the disposal of part of its UK annuity book saw Prudential's earnings forecasts drift a couple of percent lower in the year. We ascribed the de-rating to a combination of worries about demand for insurance in South East Asia in the early part of the year and then to concerns about falling stockmarkets and Brexit weighing on, respectively, the US variable annuities business and on the Pru's UK unit. Looking into 2019, we are confident that the Asian business will continue to grow strongly helped by its exposure to high-margin regular premium products. We can also look forward to the de-merger of Pru UK (Pru UK and M&G) from Prudential International which we hope will see some of the wide discount to its international peers close. With the shares trading on less than 9x forward earnings, we are happy holders.

It was not all bad news at a stock level. Fenner was the standout performer. It was hoovered up in the early-year M&A spree by Michelin, which has taken an excellent business inside its fold. While we were sad to lose a long-term favourite, we did note that they were effectively paying a high multiple for close to peak earnings.

A short position in a UK challenger bank proved rewarding as hopes for its 'disruptive' business model encountered the realities of competitive mortgage and funding markets. We still think that there is very little disruptive about the model and expect the rating of the business to converge with other domestic UK banks. That would imply further downside even before any deterioration in the UK credit cycle. History suggests that those lenders growing their loan books fastest ahead of a downturn tend to suffer most, especially those lending into higher-risk product areas.

While Oxford Instruments de-rated over the year, it was a good example of bottom-up insight on a stock offsetting top-down concerns. Here, the repositioning of the business from producing instruments to providing solutions for researchers and scientists has seen its order book and operating margins rising. Likewise, IAG (the holding company of British Airways among others) performed solidly. Good cost control and network optimisation are leading to recurrent earnings upgrades despite a backdrop of rising oil prices.

Underweight positions in telecoms and tobacco also benefited the fund. High levels of debt and increased regulatory headwinds led to significant de-ratings for Vodafone and the two tobacco companies. We used the weakness in Vodafone to initiate a new position. Its interim results confirmed that a further cost-saving programme should allow it to maintain its dividend despite a tougher competitive environment in Italy and Spain. With a yield of close to 9%, we believe that any evidence of an operational improvement in these two markets should prompt a decent rally in the shares.

Tobacco, meanwhile, has been a substantially more interesting sector of late. It is currently in the early stages of its biggest (only?) technological revolution to date: vaping products have seen extraordinary growth in the US market, led by the privately held Juul. This has both challenged the view that the incumbents would win in the vaping market and also attracted the ire of the Food and Drug Administration (FDA). The rapid growth of Juul has fuelled such a sharp rise in vaping in schools that the US market has seen a reversal of the long-term decline in nicotine consumption. The FDA has responded through more stringent control of the marketing of these products as well as looking more closely at flavours in the tobacco sector. While the tobacco companies look cheap, their high leverage and regulatory uncertainty leave us underweight the sector.

In terms of activity, not a lot changed during the year. We still see a huge amount of value in the stocks that we hold and believe that the market currently provides an opportunity to buy some excellent businesses at very modest valuations. Yes, these cheap stocks can always get cheaper – but for how long? We refer to Ben Graham: "the market is a voting mechanism in the short term but a weighing machine in the long term." This is particularly apt given that the Brexit vote is behind so much of the fear in the UK market. But when this portfolio is eventually weighed and measured, we believe it will not be found wanting.

Outlook – In uncertain times …

As we look to 2019, we expect that global growth will slow as tighter monetary policy and political uncertainty weigh on the sentiment of companies and consumers. But we see this as a slowdown in growth rather than an outright recession. The US Federal Reserve has re-iterated that the direction of future monetary policy will be data-dependent. We hope this reduces fears of a policy mistake. Trump, meanwhile, seems to regard the stockmarket as the barometer for the success of his policies, which should incentivise him to ease trade tensions with China.

The outcome of the latest chapter of the Brexit process remains harder to call. Seemingly no path commands a clear majority in parliament. Normally politics is about building a consensus, and narrowing down favoured options – presently we still see a wide range of possible outcomes: from a no-deal through to no Brexit. What is clear is that UK domestic stocks are still extremely sensitive to the news on this topic and, at current levels, we would expect to see them rally strongly under anything but a no-deal scenario. In these uncertain times, we are again reminded of the great J K Galbraith line "there are two kinds of forecasters: those who don't know, and those who don't know they don't know." Whatever the outcome of Brexit, we can at least see that the worst prognostications have, thus far, fallen wide of the mark. Despite the lack of clarity, unemployment has continued to fall and real wages are picking up.

Amid current heightened uncertainty we are sticking rigorously to our investment philosophy – investing in companies where we have a good bottom-up insight, and where we view the cash generation of the business to be undervalued. Today, the portfolio is trading on a multiple of just over 8x forward earnings and has a dividend yield of close to 5%. We don't feel this is reflective of the strength of the business models or balance sheets of the stocks that we own. In aggregate, we expect our holdings to deliver both earnings and dividend growth in 2019. Yet we expect the bigger driver of returns from here to be a re-rating of our holdings back to more typical long-term levels. While identifying the exact trigger for a rally is always difficult, we believe that the low starting valuation of both the market and the portfolio, combined with underweight investor positioning towards the UK market could lead to a rapid reversal of recent falls as and when some of the current top-down uncertainties lift.

Ed Legget & Ambrose Faulks
Fund managers

Investment information

Five largest purchases and sales for the year ended 31 December 2018

Purchases	Cost £'000	Sales	Proceeds £'000
Royal Dutch Shell A shares	34,157	Fenner	26,737
BP	16,740	Royal Dutch Shell A shares	13,019
Vodafone Group	15,274	Lloyds Banking Group	12,724
Melrose Industries	13,263	Anglo American	11,886
RPC Group	13,257	British American Tobacco	9,285

Portfolio statement as at 31 December 2018

Investment	Holding	Valuation £'000	% of net assets
Equities 97.54% (99.17%)			
Basic Materials 3.12% (3.09%)			
Glencore	6,300,000	18,450	3.12
		18,450	**3.12**
Consumer Goods 8.66% (15.90%)			
British American Tobacco	350,000	8,776	1.49
Countryside Properties	5,053,419	15,383	2.60
Galliford Try	1,154,146	7,167	1.21
Photo-Me International	5,067,031	4,495	0.76
Redrow	2,000,000	9,784	1.66
Superdry	1,200,000	5,527	0.94
		51,132	**8.66**
Consumer Services 14.47% (16.34%)			
888 Holdings	5,500,000	9,515	1.61
easyJet	484,260	5,387	0.91
International Consolidated Airlines Group	4,000,000	24,680	4.18
Lookers	10,000,000	9,220	1.56
Ryanair Holdings	1,375,000	13,313	2.26
Tesco	12,250,000	23,336	3.95
		85,451	**14.47**
Financials 31.94% (29.93%)			
3i Group	3,900,000	30,248	5.12
AIB Group	3,250,000	10,727	1.82
Arrow Global Group	4,000,000	7,064	1.20
Aviva	3,150,000	11,816	2.00
Barclays	16,000,000	23,923	4.05
Countrywide	4,216,474	361	0.06
Hiscox	72,000	1,156	0.20
Intermediate Capital Group	1,750,000	16,362	2.77
Legal & General Group	5,000,000	11,605	1.96
Lloyds Banking Group	20,000,000	10,316	1.75
Man Group	6,000,000	7,962	1.35
Prudential	1,950,000	27,349	4.63
Quilter	7,500,000	8,874	1.50
Royal Bank of Scotland Group	2,500,000	5,375	0.91
St James's Place	1,650,000	15,497	2.62
		188,635	**31.94**
Healthcare 0.00% (0.90%)			

Investment	Holding	Global exposure* £'000	Valuation £'000	% of net assets
Industrials 27.18% (30.46%)				
Ashtead Group	1,080,000		17,647	2.99
BBA Aviation	3,547,751		7,784	1.32
Biffa	221,321		435	0.07
Bodycote	2,097,442		15,175	2.57
Capita	4,500,000		5,006	0.85
DS Smith	7,100,000		21,108	3.57
Forterra	2,244,282		5,027	0.85
Hays	5,200,000		7,296	1.24
Howden Joinery Group	700,000		3,073	0.52
Melrose Industries	7,000,000		11,347	1.92
Oxford Instruments	1,500,000		13,020	2.21
Renishaw	200,000		8,432	1.43
RPC Group	2,500,000		16,200	2.74
Tyman	1,735,801		4,070	0.69
Vesuvius	2,400,000		12,252	2.07
Weir Group	975,000		12,651	2.14
			160,523	**27.18**
Oil & Gas 9.72% (2.55%)				
BP	6,400,000		31,888	5.40
Kosmos Energy	1,000,000		3,173	0.54
Premier Oil	6,000,000		3,897	0.66
Royal Dutch Shell A shares	800,000		18,432	3.12
			57,390	**9.72**
Telecommunications 2.45% (0.00%)				
Vodafone Group	9,500,000		14,501	2.45
			14,501	**2.45**
Equities total			**576,082**	**97.54**
Contracts for difference (0.01)% ((0.02)%)				
Consumer Goods 0.00% (0.00%)				
Burberry Group	(100,000)	(1,729)	(10)	–
		(1,729)	**(10)**	**–**
Consumer Services (0.01)% (0.00%)				
AO World	(3,400,000)	(4,332)	(54)	(0.01)
Marks & Spencer Group	(1,100,000)	(2,710)	6	–
		(7,042)	**(48)**	**(0.01)**
Financials 0.00% ((0.01)%)				
Metro Bank	(200,000)	(3,408)	8	–
NewRiver REIT	(863,479)	(1,828)	(30)	–
Woodford Patient Capital Trust	(2,250,000)	(1,851)	–	–
		(7,087)	**(22)**	**–**
Industrials 0.00% ((0.01)%)				
Contracts for difference total		**(15,858)**	**(80)**	**(0.01)**
Investment assets (including investment liabilities)			576,002	97.53
Net other assets			14,592	2.47
Net assets attributable to unitholders			590,594	100.00

The comparative percentage figures in brackets are as at 31 December 2017.

* Global exposure has been calculated in line with the guidelines issued by the European Securities and Markets Authority ('ESMA') and represents the market value of an equivalent position in the underlying investment of each derivative contract. For all other asset types the percentage of net assets has been calculated based on the valuation of each holding.

Financial statements

Statement of total return for the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Income					
Net capital (losses)/gains	3		(164,053)		98,861
Revenue	5	25,197		16,367	
Expenses	6	(7,400)		(6,592)	
Interest payable and similar charges	7	(1,065)		(407)	
Net revenue before taxation		16,732		9,368	
Taxation	8	(253)		60	
Net revenue after taxation			16,479		9,428
Total return before distributions			**(147,574)**		**108,289**
Distributions	9		(16,564)		(9,461)
Change in net assets attributable to unitholders from investment activities			(164,138)		98,828

Statement of change in net assets attributable to unitholders for the year ended 31 December 2018

	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Opening net assets attributable to unitholders		648,224		529,836
Amounts receivable on issue of units	139,437		65,220	
Amounts payable on cancellation of units	(49,245)		(55,594)	
		90,192		9,626
Change in net assets attributable to unitholders from investment activities		(164,138)		98,828
Retained distribution on accumulation units		16,316		9,934
Closing net assets attributable to unitholders		590,594		648,224

Balance sheet as at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Assets			
Fixed assets			
Investments	10	576,096	642,869
Current assets			
Debtors	11	4,319	2,512
Cash and bank balances	12	12,563	7,090
Total current assets		**16,882**	**9,602**
Total assets		**592,978**	**652,471**
Liabilities			
Investment liabilities	10	94	126
Creditors			
Bank overdraft	13	609	32
Distribution payable		680	102
Other creditors	14	1,001	3,987
Total creditors		**2,290**	**4,121**
Total liabilities		**2,384**	**4,247**
Net assets attributable to unitholders		590,594	648,224

1. Accounting policies

(a) Basis of accounting. The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, in accordance with FRS 102 and the SORP and the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL'). The financial statements have been prepared on a going concern basis.

(b) Valuation of investments. All investments have been valued at 12 noon on the last working day of the accounting period. Listed investments are valued at fair value which is deemed to be the bid or SETS price. Unquoted investments are valued at fair value which is determined by the investment manager, with reference to the valuation guidelines issued by the International Private Equity and Venture Capital Valuation Guidelines Board. The Contracts for Difference held in the portfolio are valued based on the price of the underlying security or index which they are purchased to reflect. The nature and intended use of these derivatives is to synthetically allow the sub-fund to go long and short on an underlying asset without the need to trade the physical securities. They are valued at the quoted bid price of the underlying security when held long and at the quoted offer price of the underlying security when short.

(c) Foreign exchange rates. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates prevailing at 12 noon on the last working day of the accounting period. Revenue and expenditure transactions are translated at the rates of exchange ruling on the dates of the transactions. Exchange differences on such transactions follow the same treatment as the principal amounts.

(d) Derivatives. Where appropriate, certain permitted transactions such as derivatives or forward currency contracts are used for investment purposes and efficient portfolio management. Derivatives are valued at 12 noon on the last working day of the accounting period. Exchange traded derivatives are priced at fair value, which is deemed to be the bid price. Over-the-counter derivatives are priced at fair values using valuation models or data sourced from market data providers. Contracts for difference ('CFDs') held in the portfolio are valued at bid when held long and offer when short. Interest on margin accounts held with brokers is included in the revenue return. All other gains/losses and cash flows from derivatives are included in the capital return.

(e) Revenue. Dividends receivable from equity and non-equity shares, including Real Estate Investment Trusts, are credited to revenue, net of attributable tax credits, when the security is quoted ex-dividend. Dividends received as shares (scrip/stock dividends), to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue. Dividends on unquoted stocks are credited to revenue when the right to receive payment is established. Special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. It is likely that where a special dividend results in a significant reduction in the capital value of a holding, then the dividend will generally be treated as capital, otherwise this will be recognised as revenue. Dividends on contracts for difference are recognised when the securities are quoted ex-dividend. Cash held at CFD broker as margin is reflected separately within cash and bank balance. Bank interest is recognised on an accruals basis. Underwriting commission is recognised when the issue underwritten takes place.

(f) Expenses. All expenses (other than those relating to the purchase and sale of investments) are initially charged against revenue on an accruals basis.

(g) Taxation. Corporation tax is charged at a rate of 20% on the excess taxable revenue of the fund. In general, the tax accounting treatment follows that of the principal amount. Deferred tax is provided for all timing differences that have originated but not reversed at the balance sheet date other than those recorded as permanent differences. Deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

2. Distribution policy

The distribution policy of the fund is to distribute all available revenue, after deduction of expenses properly chargeable against revenue and taxation. The manager and trustee have agreed, for the Distribution class only, that 100% of the annual management charge is to be transferred to capital for the purpose of calculating its distribution, as permitted by COLL. The distribution currently payable reflects this treatment. Gains and losses on non-derivative investments and currencies, whether realised or unrealised, are taken to capital and are not available for distribution. With the exception of the manager's annual management charge, which is directly attributable to each unit class, all income and expenses are apportioned to each unit class pro-rata to the value of the net assets of the relevant unit class on the day that the income or expense is recognised.

For accumulation units this revenue is not distributed but automatically reinvested in the fund and is reflected in the value of these units.

Distributions which have remained unclaimed by unitholders for six years are credited to the capital property of the fund.

Notes to the financial statements (continued)

3. Net capital (losses)/gains

	31 December 2018 £'000	31 December 2017 £'000
Derivative contracts	4,115	1,469
Capital transaction charges	(4)	(4)
Currency (losses)/gains	(101)	37
Non-derivative securities	(168,063)	97,359
Net capital (losses)/gains	(164,053)	98,861

4. Direct transaction costs

For purchases and sales of equities and derivatives, broker commissions, transfer taxes and stamp duty are paid by the fund on each transaction and are summarised below.

	Year ended 31 December 2018					
	Principal £'000	Commission £'000	Taxes £'000	Total after costs £'000	Commission as a percentage of principal %	Taxes as a percentage of principal %
Purchases						
Equities	314,200	117	1,373	315,690	0.04	0.44
Sales						
Equities	214,499	90	-	214,409	0.04	-
Derivative purchases and sales		19				
Total		226	1,373			
Percentage of fund average net assets		0.03%	0.20%			

	Year ended 31 December 2017					
	Principal £'000	Commission £'000	Taxes £'000	Total after costs £'000	Commission as a percentage of principal %	Taxes as a percentage of principal %
Purchases						
Equities	331,309	275	1,490	333,074	0.08	0.45
Sales						
Equities	317,770	246	1	317,523	0.08	-
Derivative purchases and sales		25	-			
Total		546	1,491			
Percentage of fund average net assets		0.09%	0.26%			

During the year the fund incurred £4,000 (2017: £4,000) in capital transaction charges.

Dealing spread

As at the balance sheet date the average portfolio dealing spread was 0.15% (2017: 0.10%). This spread represents the difference between the bid and offer prices of each underlying investment expressed as a percentage of the value determined by reference to its offer price.

5. Revenue

	31 December 2018 £'000	31 December 2017 £'000
UK dividends	20,515	14,089
Overseas dividends	4,658	1,501
Bank interest	17	7
Underwriting commission	7	-
UK stock dividends	-	770
Total revenue	25,197	16,367

6. Expenses

	31 December 2018 £'000	31 December 2017 £'000
Payable to the manager, associates of the manager and agents of either of them:		
Annual management charge	6,971	6,195
Other expenses:		
Registration fees	167	141
Administration fees	119	106
Trustee fees	57	69
Operational fees	42	44
Safe custody fees	19	15
Capital derivative fees	14	12
Auditor's remuneration: audit fee *	10	9
Price publication fees	1	1
Total expenses	7,400	6,592

All expenditure stated above is inclusive of irrecoverable VAT where applicable.
* The amounts disclosed above includes VAT at the rate of 20%. The audit fee (excluding VAT) accrued during the period was £8,000 (2017: £7,500).

7. Interest payable and similar charges

	31 December 2018 £'000	31 December 2017 £'000
Dividends payable on short positions	716	154
Interest payable	349	253
Total interest payable and similar charges	1,065	407

8. Taxation

	31 December 2018 £'000	31 December 2017 £'000
a) Analysis of the tax charge for the year		
Irrecoverable overseas tax	253	133
Prior year adjustments	-	(193)
Total taxation (note 8b)	253	(60)
b) Factors affecting the tax charge for the year		
Net revenue before taxation	16,732	9,368
Corporation tax at 20% (2017: 20%)	3,346	1,874
Effects of:		
Unutilised management expenses	1,479	1,318
Irrecoverable overseas tax	253	133
Utilisation of non-trade deficit carried forward	66	49
Prior year adjustments	-	(193)
Non-taxable stock dividends	-	(154)
Non-taxable overseas dividends	(788)	(269)
Non-taxable UK dividends	(4,103)	(2,818)
Tax charge for the year (note 8a)	253	(60)

c) Provision for deferred tax
No provision for deferred tax has been made in the current or prior accounting year.

d) Factors that may affect future tax charges
The fund has not recognised a deferred tax asset of £21,633,000 (2017: £20,154,000) arising as a result of having unutilised management expenses of £108,164,000 (2017: £100,771,000) and non-trade loan relationship deficits of £5,757,000 (2017: £5,425,000). It is unlikely that the fund will obtain relief for these in the future so no deferred tax asset has been recognised.

Notes to the financial statements (continued)

9. Distributions

	31 December 2018 £'000	31 December 2017 £'000
Final dividend distribution	16,996	10,036
Add: amounts deducted on cancellation of units	713	320
Deduct: amounts added on issue of units	(1,145)	(895)
Distributions	16,564	9,461
Movement between net revenue and distributions		
Net revenue after taxation	16,479	9,428
Annual management charge paid from capital	80	6
Expenses paid from capital	14	12
Add: revenue received on conversion of units	-	15
Less: amounts deducted on conversion of units	(9)	-
	16,564	9,461

The distributions take account of amounts added on the issue of units and amounts deducted on the cancellation of units. Details of the distributions per unit are set out in the distribution table on page 20.

10. Fair value hierarchy

All investments are designated at fair value through profit or loss on initial recognition. The following table provides an analysis of these investments based on the fair value hierarchy in accordance with FRS 102 which reflects the reliability and significance of the information used to measure their fair value.

The disclosure is split into the following categories:

Level 1 – Investments with unadjusted quoted prices in an active market;
Level 2 – Investments whose fair value is based on inputs other than quoted prices that are either directly or indirectly observable;
Level 3 – Investments whose fair value is based on inputs that are unobservable (i.e. for which market data is unavailable).

	31 December 2018		31 December 2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	576,096	94	642,869	126
Total	576,096	94	642,869	126

11. Debtors

	31 December 2018 £'000	31 December 2017 £'000
Amounts receivable on derivative contracts	2,109	164
Accrued revenue	1,869	985
Overseas withholding tax recoverable	249	63
Amounts receivable for issue of units	92	475
Sales awaiting settlement	-	825
Total debtors	4,319	2,512

12. Cash and bank balances

	31 December 2018 £'000	31 December 2017 £'000
Cash and bank balances	12,563	11
Amounts held in JPMorgan Liquidity Funds – Sterling Liquidity Fund (Institutional dist.)	-	5,147
Amounts held at futures clearing houses and brokers	-	1,932
Total cash and bank balances	12,563	7,090

13. Bank overdraft

	31 December 2018 £'000	31 December 2017 £'000
Amounts pledge to futures clearing houses and brokers	609	-
Bank overdraft	-	32
Total cash and bank balances	609	32

14. Other creditors

	31 December 2018 £'000	31 December 2017 £'000
Accrued annual management charge	481	504
Amounts payable for cancellation of units	206	106
Accrued other expenses	153	114
Amounts payable on derivative contracts	132	40
Purchases awaiting settlement	29	3,223
Total other creditors	1,001	3,987

15. Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

16. Reconciliation of unit movements

Class	Units in issue at 31 December 2017	Units issued	Units cancelled	Units converted	Units in issue at 31 December 2018
G distribution	-	2,557,265	(3,880)	425,255	2,978,640
I distribution	710,435	2,364,416	(90,504)	(400,820)	2,583,527
I accumulation	65,116,739	18,936,328	(4,566,876)	1,012,088	80,498,279
R accumulation	45,690,708	679,979	(4,671,014)	(1,100,787)	40,598,886

17. Risk disclosures

In pursuing their investment objectives, the fund may hold a number of financial instruments. These financial instruments comprise equities, bonds, derivatives, cash balances and liquid resources, which include debtors and creditors that arise directly from the funds' operations. The fund only executes derivative contracts where both the derivative instrument and the counter party have been approved by the manager.

The manager has a risk management policy. The processes detailed within are designed to monitor and measure at any time the risk of the fund's positions and their contribution to the overall risk profile of the fund. In addition, our Investment Committee and Risk and Compliance Committee meet monthly and quarterly respectively, and as required to evaluate risk across each of our funds. These policies have been consistent for both the current and prior period to which these financial statements relate.

In the normal course of business, the fund's activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. These financial risks: market risk (comprising currency risk, interest rate risk, other market price risk and leverage risk), credit and counterparty risk and liquidity risk and the approach to the management of these risks, are set out below and remain unchanged from the previous accounting year. For a detailed explanation of these and further risks involved in investing in the fund, reference should be made to the Prospectus.

(a) Market risk

Market risk, which includes interest rate risk, currency risk, other price risk and leverage risk arises mainly from uncertainty about future values of financial instruments in the fund's investment portfolio. The fund, in order to meet its investment objective and policy, invests predominantly in equities and maintains an appropriate spread of investments in accordance with COLL, the Trust Deed and the Prospectus to seek to reduce the risks arising from factors specific to a particular company or sector. The manager's investment strategy is to select investments for their fundamental value. Stock selection is therefore based

Notes to the financial statements (continued)

on disciplined accounting, market and sector analysis, with the emphasis on long-term investments. There is no material difference between the carrying values and the fair values of the financial assets and liabilities of the fund disclosed in the balance sheet. The manager uses a value-at-risk approach to measure the fund's exposure to market risk.

(i) Value at Risk ('VaR')

The manager is currently empowered to enter into derivative transactions on behalf of the fund. The use of these strategies is subject to a risk management process and the manager analyses the overall risk position of the fund on a daily basis, which is then used by the manager to evaluate the exposures and risks in the portfolio. The manager is currently empowered to enter into derivative transactions on behalf of the fund. The use of these strategies is subject to a risk management process and the manager analyses the overall risk position of the fund on a daily basis, which is then used by the manager to evaluate the exposures and risks in the portfolio.

As part of the process, the VaR is used on a daily basis to calculate the market price risk on the fund relative to a reference portfolio, the FTSE All-Share Index. The maximum limit for UCITS funds is twice the VaR of the reference portfolio, i.e. +100%, in accordance with the Committee of European Securities Regulators ('CESR') guidance. A relative VaR of zero indicates that the fund is estimated to have the same market price risk as the reference portfolio. A negative relative VaR indicates that the fund's market price risk is estimated to be lower than the reference portfolio. VaR expresses the maximum expected loss by the fund in a defined period, at a specified confidence level. The parameters used are: a confidence level of 99%, uses two year risk factor data and a 20 business day holding period.

From 6 July 2018 the VaR methodology was changed from using two years risk factor data to one year.

It should be noted that VaR assumes that risk in the future can be predicted from the historic distribution of returns and so this methodology can be vulnerable to extreme, unforeseen events and therefore the VaR analysis is complemented with additional scenario and stress testing.

	For the period from 6 July 2018 to 31 December 2018 %	For the period from 1 January 2018 to 5 July 2018 %	For the period from 29 June 2017 to 31 December 2017 %	For the period from 1 January 2018 to 28 June 2017 %
At 31 December	6.22	-	35.20	-
Average utilisation during the period	11.08	14.40	31.14	90.46
Highest utilisation during the period	17.40	35.39	44.75	101.25
Lowest utilisation during the period	4.93	1.71	17.58	24.70

(ii) Leverage risk

Leverage is defined as any method by which the fund can increase its exposure by borrowing cash or securities or from leverage that is embedded in derivative positions. The manager is required to calculate and monitor the level of leverage of a fund, expressed as a percentage of the exposure of the fund and its net asset value under the 'sum of the notionals' and 'commitment' methods.

The fund can use cash borrowing and financial derivatives (subject to the restrictions as set out in its Prospectus and COLL) as sources of leverage. A result of 100% indicates that no leverage has been used.

As at 31 December 2018 and 31 December 2017 the leverage ratios of the fund were:

	2018	2017
Sum of notionals	102.94%	104.35%
Commitment	100.43%	102.43%

(b) Credit and counterparty risk

Credit and counterparty risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into with the fund, resulting in a financial loss. From time to time, the fund may be subject to short-term credit risk with counterparties pending settlement of investment transactions. The manager has a pre-approved list of counterparties it uses for investment transactions, which is reviewed on a regular basis. The largest counterparty risk is with J.P. Morgan Chase N.A. ('JP Morgan'), the fund's custodian and banker, who holds the fund's investments and maintains the bank accounts. Bankruptcy or insolvency of JP Morgan may cause the fund's rights with respect to securities and cash held by the custodian to be delayed or limited. The trustee receives and reviews a semi-annual report on the internal controls in place at JP Morgan. The fund is also exposed to counterparty risk through holding specific financial instruments.

The manager is permitted to use one or more separate counterparties for derivative transactions. The fund may enter into transactions in over-the-counter ('OTC') markets that expose it to the creditworthiness of its counterparties and their ability to satisfy the terms of such contracts. Where the fund enters into derivative contracts, it will be exposed to the risk that the counterparty may default on its obligations to perform under the relevant contract. In the event of bankruptcy or insolvency of a counterparty, the fund could experience delays in liquidating the position and may incur significant losses. There may be a risk that a counterparty will be unable to meet its obligations with regard to the return of the collateral and may not meet other payments due to the fund. To minimise such risk the manager will assess the creditworthiness of any counterparty that it engages. On a daily basis the manager assesses the level of assets with each counterparty to ensure that the exposure is within the defined limits in accordance with the requirement stipulated in COLL and the Prospectus. The derivatives are disclosed in the portfolio statement and UBS AG ('UBS') is the counterparty for the CFDs. Aside from the custodian, the derivative counterparty and brokers where trades are pending settlement, there were no significant concentrations of credit and counterparty risk as at 31 December 2018 or 31 December 2017.

Counterparty and collateral exposure

The types of derivatives held at the balance sheet date were CFDs. Details of the individual contracts are disclosed separately in the portfolio statement and the total position by counterparty and the collateral pledged, at the balance sheet date, were as follows:

	Contracts for difference £'000	Total net exposure £'000	Net collateral held/(pledged) £'000
31 December 2018			
UBS	(15,858)	(15,249)	(609)
31 December 2017			
UBS	(19,009)	(20,941)	1,932

Only cash collateral is pledged or held by the fund.

(c) Liquidity risk

Some of the fund's financial instruments can include securities that are not listed on a recognised stock exchange and which may not always be readily realisable. However, from time to time, liquidity in any market or in a specific security can be affected by economic events. As a result, the fund may not be able to realise these investments quickly at their fair value to respond to any further liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In order to manage liquidity requirements, the fund seeks to maintain sufficient cash to pay creditors. Liquidity risk limits are set by reference to two key metrics: market liquidity and investor concentration. These measures will, in combination, identify instances where the fund may be unable to meet investor redemptions. Market liquidity considers a fund's liquidity compared against the daily average liquidity over the previous twelve months. Investor concentration considers the proportion of the fund that is realisable within a redemption cycle measured against the largest unitholder.

18. Related party transactions

The manager is deemed to be a related party. All transactions and balances associated with the manager are disclosed within the statement of total return, statement of change in net assets attributable to unitholders and the balance sheet on page 12 and notes 6, 9, 11 and 14 on pages 15 to 17 including all issues and cancellations where the manager acted as principal. The balance due to the manager as at 31 December 2018 in respect of these transactions was £595,000 (2017: £135,000).

19. Unit classes

The annual management charge on each unit class is as follows:

G distribution: 0.48%
I distribution: 0.75%
I accumulation: 0.75%
R accumulation: 1.50%

The net asset value per unit and the number of units in each class are given in the comparative tables on page 21. The distributions per unit class are given in the distribution table on page 20. All classes have the same rights on winding up.

20. Post balance sheet event

There were no significant post balance sheet events subsequent to the year end.

Distribution tables

Final dividend distribution for the year ended 31 December 2018 (payable on 28 February 2019) in pence per unit.

Group 1 - Units purchased prior to 1 January 2018.
Group 2 - Units purchased from 1 January 2018 to 31 December 2018.

	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 28 February 2019	Distribution per unit (p) 28 February 2018
I distribution				
Group 1	18.4030	-	18.4030	14.4146
Group 2	8.1158	10.2872	18.4030	14.4146
I accumulation				
Group 1	15.1341	-	15.1341	10.8065
Group 2	9.7864	5.3477	15.1341	10.8065
R accumulation				
Group 1	10.1819	-	10.1819	6.3410
Group 2	6.9589	3.2230	10.1819	6.3410

1. 100.00% of the revenue distribution together with the tax credit is received as franked investment income.

2. 0.00% of the revenue distribution is received as an annual payment received after deduction of income tax at the lower rate and may be liable to corporation tax. It is not franked investment income.

Equalisation applies only to units purchased during the distribution period (group 2 units). It is the average amount of revenue included in the purchase price of all group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Final dividend distribution for the period from 10 August 2018 to 31 December 2018 (payable on 28 February 2019) in pence per unit.

Group 1 - Units purchased prior to 10 August 2018
Group 2 - Units purchased from 10 August 2018 to 31 December 2018.

	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 28 February 2019
G distribution			
Group 1	6.8707	-	6.8707
Group 2	2.5814	4.2893	6.8707

Corporate unitholders should note that:

1. 100.00% of the revenue distribution together with the tax credit is received as franked investment income.

2. 0.00% of the revenue distribution is received as an annual payment received after deduction of income tax at the lower rate and may be liable to corporation tax. It is not franked investment income.

Equalisation applies only to units purchased during the distribution period (group 2 units). It is the average amount of revenue included in the purchase price of all group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

Comparative tables

	G distribution**	I distribution ***		
	2018	2018	2017	2016
Change in net assets per unit (p)				
Opening net asset value per unit	**567.71**	**563.36**	**476.29**	**452.17**
Return before operating charges *	(113.85)	(106.82)	105.96	39.21
Operating charges	(1.18)	(4.32)	(4.48)	(1.33)
Return after operating charges	(115.03)	(111.14)	101.48	37.88
Distributions	(6.87)	(18.40)	(14.41)	(13.76)
Retained distributions on accumulation units	-	-	-	-
Closing net asset value per unit	**445.81**	**433.82**	**563.36**	**476.29**
* after direct transaction costs of	(0.71)	(0.80)	(1.63)	(2.10)
Performance				
Return after charges	(20.26)%	(19.73)%	21.31%	8.38%
Other information				
Closing net asset value (£'000)	13,279	11,208	4,002	10
Closing number of units	2,978,640	2,583,527	710,435	2,192
Operating charges	0.55%	0.81%	0.82%	0.24%
Direct transaction costs	0.15%	0.15%	0.29%	0.46%
Prices				
Highest offer unit price (p)	570.71	603.59	587.18	503.86
Lowest bid unit price (p)	442.82	442.38	480.24	392.36

	I accumulation			R accumulation		
	2018	2017	2016	2018	2017	2016
Change in net assets per unit (p)						
Opening net asset value per unit	**594.42**	**490.11**	**481.75**	**562.82**	**467.55**	**463.02**
Return before operating charges *	(112.64)	108.80	12.09	(105.98)	103.42	11.33
Operating charges	(4.65)	(4.49)	(3.73)	(8.48)	(8.15)	(6.80)
Return after operating charges	(117.29)	104.31	8.36	(114.46)	95.27	4.53
Distributions	(15.13)	(10.81)	(12.69)	(10.18)	(6.34)	(8.89)
Retained distributions on accumulation units	15.13	10.81	12.69	10.18	6.34	8.89
Closing net asset value per unit	**477.13**	**594.42**	**490.11**	**448.36**	**562.82**	**467.55**
* after direct transaction costs of	(0.86)	(1.59)	(2.03)	(0.81)	(1.51)	(1.94)
Performance						
Return after charges	(19.73)%	21.28%	1.74%	(20.34)%	20.38%	0.98%
Other information						
Closing net asset value (£'000)	384,078	387,066	281,888	182,029	257,156	247,938
Closing number of units	80,498,279	65,116,739	57,514,701	40,598,886	45,690,708	53,029,508
Operating charges	0.81%	0.82%	0.83%	1.56%	1.57%	1.58%
Direct transaction costs	0.15%	0.29%	0.46%	0.15%	0.29%	0.46%
Prices						
Highest offer unit price (p)	636.84	604.10	498.83	625.01	594.64	494.70
Lowest bid unit price (p)	466.74	494.10	391.73	438.64	471.31	375.12

* Direct transaction costs are stated after deducting the amounts collected in relation to estimated dealing costs added to issue of units and subtracted from the cancellation of units.
** Launched 10 August 2018.
*** Launched 14 September 2016.
The operating charges are calculated on an ex-post basis and as such may differ from the ongoing charges figure where the ongoing charge has been annualised for a class that has not been open for a full year.

Comparative tables (continued)

Ongoing charges

Class	31 December 2018
G distribution	0.55%
I distribution	0.81%
I accumulation	0.81%
R accumulation	1.56%

Ongoing charges shows the annual operating expenses of each unit class as a percentage of the average net assets of that class for the preceding 12 months.

Class I performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Select Fund	400.9	11.8	(0.8)	(19.7)	(19.9)
FTSE All-Share Index	157.3	22.1	19.5	(9.5)	(11.0)
Sector average	174.2	18.5	12.7	(11.1)	(13.5)
Position in sector	4/76	170/220	212/234	239/245	238/249
Quartile	1	4	4	4	4

* Data from 3 April 1998. Source: Lipper Limited, data from 3 April 1998 to 1 September 2010 reflects class R accumulation units and from 1 September 2010 reflects class I accumulation units, bid to bid in sterling to 31 December 2018. All performance figures show total returns with dividends reinvested, percentage growth. Sector is IA UK All Companies.

Class R performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Select Fund	370.7	7.6	(3.1)	(20.3)	(20.2)
FTSE All-Share Index	157.3	22.1	19.5	(9.5)	(11.0)

* Data from 3 April 1998. Source: Lipper Limited, class R accumulation units, bid to bid in sterling to 31 December 2018. All performance figures show total returns with dividends reinvested, percentage growth.

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